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ABSTRACT

This document outlines a framework for a child-centered education approach to meet the requirements of the school-funding reforms mandated by the Ohio Supreme Court. The restructuring, which tied funding to education opportunity, was in response to the court case, "DeRolph vs. State," which ended reliance on the local property tax as the primary funding source for public schools, gave the state the primary responsibility for funding education, improved funding for facilities, and linked the costs of a child's education to school funding. The paper details how Child-Centered Education uses market-oriented reforms to transform public education, institutionalize accountability, improve productivity, and meet the mandate of "DeRolph." The mechanism provides incentives for stakeholders within the system to reform their own schools through competition for students. The report outlines how child-centered education works, and details some of the parameters connected with parental and local control of education. It describes the various types of program funding, such as grants, education tax credits, earmarking, and local district supplemental funding. The report concludes that child-centered education uses statewide grants to improve public education by attracting students into schools; empowering parents, students, administrators, and teachers; reinforcing local control; by emphasizing the customer; and linking funding to opportunity. Four appendices outline proposals for transportation issues. The role of the Ohio Department of Education, collective bargaining reform, and a consolidation of state programs. (Contains 38 references and notes.) (RJM)

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Children First:

A Discussion Paper on Public School Finance and Education Reform in Ohio

Building Community Through Choice

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1

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Contents

1. Child-Centered Education 1

2. How Child-Centered Education Works 5

3. Parental and Local Control 9

4. Program Funding 11

5. Conclusion 17

Appendices:

A: Role of Ohio Department of Education 19

B: Transportation 20

C: Collective Bargaining Reform 21

D: Proposed Consolidation of State Programs 23

End Notes 24

Children First:
A Discussion Paper on Public School Finance and Education Reform in Ohio

Executive Summary

In March, 1997, the Ohio Supreme Court mandated a complete overhaul of the state's system of public school finance. This discussion paper outlines a framework for a **Child-Centered Education** approach that meets the supreme court's requirements and implements effective, system-wide school reform.

Child-Centered Education puts the needs of children at the center of education decisions in Ohio's public schools. It also empowers parents, school principals, and teachers. The program accomplishes this by

- Funding public schools based on enrollment through a statewide grant system.
- Allowing parents and students to "shop" for the school, public or private, that best meets their needs.
- Rewarding effective and successful schools automatically as enrollments increase.
- "Disciplining" ineffective schools through the market place by reducing funding based on falling enrollments.

Funding for the grant program could be provided at about 25% less than current state and local spending. Through a combination of state program consolidation, tax credits, and local revenue pooling, a

- Grant of $4,000 could be provided to each school-age child in Ohio.
- Grant fund of $8.2 billion could be created.
- Supplemental grant could be provided to children with special needs averaging $7,400.

Child-Centered Education meets the requirements of *DeRolph vs. State* by directly tieing education opportunity to funding, linking the costs of a child's education to school funding, reducing the reliance on the local property tax base to fund grants, and eliminating the school foundation formula.

1. Child-Centered Education

Ohio's education policymakers are searching for solutions. Their search was framed by the Ohio Supreme Court when, in *DeRolph vs. State*, the court determined Ohio's school finance system was unconstitutional.

The court "admonished" the General Assembly to reconfigure school funding with the over-arching principle of tieing funding to education opportunity. This meant, according to the majority, that legislators would have to abandon the current way public schools are funded and subsidized by the state. Accordingly, the "School Foundation Formula," the tool used by the legislature to determine how much aid a local school district would receive, would have to be abandoned along with the reliance on *local* property taxes. Ohio's Constitution, the majority wrote, also required the *state* to assume the primary responsibility for funding public schools and ensure a "thorough and efficient" statewide system of common schools.

Summary of requirements from *DeRolph vs. State*

The court was principally concerned about the lack of a relationship between school funding and education opportunity.

Specifically, *DeRolph* mandates the following changes:

1. Fund a basic education linked to the actual costs of educating a child.
2. Eliminate the current school foundation formula, the mechanism used by the state to compute the state share of aid to local school districts.
3. End reliance on the *local* property tax as the *primary* funding source for public schools.
4. Give the state the primary responsibility for funding education.
5. Avoid practices that require schools to borrow to meet budget shortfalls.
6. Improve funding for building construction, maintenance, and repair.

Beyond these concerns and a few others (see box on page 1), the legislature was given broad discretion. The court told the legislature where it had to end up, but not how to get there.

This discussion paper provides a framework and roadmap. It details how Child-Centered Education would use market-oriented reforms to transform public education, institutionalize accountability, improve productivity *and* meet the mandates of *DeRolph*. The mechanism is a school funding approach that links revenues directly to the individual education needs of children. It also provides powerful incentives for stakeholders within the system – principals, school boards, teachers, parents, and community groups – to reform their own schools through competition for students.

Student achievement and school funding

Child-Centered Education is an outgrowth of research on public school productivity and performance.

More than three decades of research has shown that across-the-board increases in public school spending do not improve student achievement.[1] At least four studies of Ohio schools[2] and dozens of others have failed to show a positive, reliable link between higher spending and student achievement when family background, poverty, pupil-teacher ratios, teacher salaries, and other factors are considered.

This is a curious finding. Money should make a difference. Why doesn't it?

Caroline Hoxby, a Harvard University economist, may have said it best: "[T]he current 'predicament' of school finance is a failure of productivity rather than a failure of spending."[3]

"The current 'predicament' of school finance is a failure of productivity rather than a failure of spending."

Ironically, the majority in *DeRolph* explicitly cited **the lack of a link** between education opportunity and funding as a primary reason Ohio's funding system was unconstitutional.[4]

Unfortunately, the court put the cart before the horse. Without restructuring the *spending* side of the education equation – restoring accountability and responsiveness in the system – additional *funding* will not solve Ohio's public education finance problems.

Which direction for reform?

Tinkering around the edges of the current school funding system will not fundamentally change it. The problem with the current system, observes David Nordyke, Director of the Harmony Education and Empowerment Center in Cincinnati, is that "nobody's success depends on student success. The reward structure pays off whether or not the institution accomplishes the mission it has been given to perform."[5]

This is painfully evident from past approaches to education reform. "[T]he two biggest concerns about public schools right now," says Professor Hoxby, "are the fact that rising spending has not brought about higher average student performance and worry about students from disadvantaged backgrounds, who have not benefited as much as was hoped from the increased spending on their schooling."[6]

Changing how public education is provided and funded will be necessary before substantial improvement occurs. "The remedy," continues Hoxby, "that best suits both these concerns is categorical vouchers for public and possibly private schools."[7]

A statewide system of grants, or vouchers, would be a comprehensive restructuring of public education. It would establish immediate accountability through school finance and thoroughly integrate parental satisfaction into everyday education decisions.

At its core, a grant-based funding approach would integrate two elements into every public school decision in Ohio:

- **a quality education** (the product).
- **student needs** through their parents and guardians (the consumers).

In effect, statewide grants would create a market for elementary and secondary education. Since the success of any school would depend on its ability to attract students, the approach is often referred to as "child centered."

At its core, a grant-based funding system is "child-centered."

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2. How Child-Centered Education Works

Child-Centered Education would be implemented in Ohio by awarding state-funded grants, or **Education Opportunity Grants**, to the parents and guardians of school children. These grants would be used at the parents' discretion for education services at either public or non-public schools.[8]

The nuts and bolts of the program include several key components. The next three chapters of this discussion paper explore these issues and elements in more detail.

Grant administration

Grants would be administered through Education Service Centers, formerly known as county Boards of Education. This would put administration in the hands of people close to the students they serve, allowing more flexibility in applying rules to the students most directly effected by them.

Grants would go to the **school**, not the district. This would be similar to the way community schools are treated under the pilot project in Lucas County and in the "Big Eight" urban school districts.[9] The specific way funds would be allocated to local public schools, however, would be determined by the host district. An exception could be made for community schools since they are already legally independent public school agencies.

Local school districts, for example, could allocate most of the money from the Education Opportunity Grants to the school which enrolls the child. Central offices might retain an administrative fee for overhead or contract with particular schools to provide services like food service, janitorial work, or transportation.[10] Alternatively, school districts could keep finance centralized in a more traditional framework, where the central office allocates funds based on criteria other than enrollment and performance.

Every school-age child in Ohio would qualify for a grant.

Every school-age child in Ohio would qualify for a grant. The total student population served by the grant system would be a little over 2 million children.

Parents and students could choose among:

- ✓ the local public school assigned to the child.
- ✓ other public schools within the local school district.

- ✓ a chartered nonpublic school (religious or non-religious).
- ✓ a public school in another district (adjacent or non-adjacent).

Eligibility and participation

All public schools and school districts would participate in the program, although local students would have priority over schools in their district. All districts would also be required to allow students to enroll in schools in other districts. Nonpublic school participation would be voluntary.

If a public school or district does not have the capacity to accept new students, the board would adopt a resolution, passed by three-fourths of its elected members, closing enrollment to nonresident students.[11] School board opt-outs would be limited to five years, after which school boards must either 1) report the number of students they can accept or 2) adopt a resolution for another five year opt-out.

If the cost of the child's education[12] – whether in a public or private school – is lower than the Education Opportunity Grant, the difference would be deposited in an Education Trust, administered by the State of Ohio. Parents could draw on these savings from an individual family Education Savings Account where the funds could be used for tuition at elementary, secondary, or higher education institutions or for other costs directly related to the student's future education needs.

How Education Opportunity Grants work

The grant program would function much like the Cleveland Scholarship and Tutoring Program.

Parents would use the previous year to shop around for schools, talking to teachers and principals. Some schools and districts could sponsor a school fair like the one hosted by HOPE for Cleveland's Children when the scholarship program was developing.

Once the parents selected the school, the principal would register the student with the county Education Service Center. The Education Service Center then would issue a grant certificate to the school. The certificate would be signed by both the parent and the school principal before it could be redeemed.

The Ohio Department of Education would then issue a check for the grant amount which would be sent directly to the school. In most cases, the grant money would be deposited in a separate account to cover the instructional expenses of the registered school.

Implementation timetable

The statewide grant program could be implemented two ways. The first would require a complete, statewide transition for all grade levels by the 1999-2000 school year. This is the approach adopted in the recent Lucas County community schools pilot project and it would give schools one year to prepare for the transition.

The second approach would phase-in the program over seven years beginning in the 1998-99 school year. The first year would include kindergarten and first grade. Subsequent years would add grades until all were covered by 2005.

The analysis in the following chapters presumes that Child-Centered Education would be implemented immediately and comprehensively since the impact would be greater under this scenario.

Proposed phase-in of Child-Centered Education

Academic Year	*Grades Added*	*Grades Covered*
1998 – 1999:	K & 1	K, 1
1999 – 2000:	2 & 3	K, 1, 2, 3
2000 – 2001:	4 & 5	K, 1, 2, 3, 4, 5
2001 – 2002:	6 & 7	K, 1, 2, 3, 4, 5, 6, 7
2002 – 2003:	8 & 9	K, 1, 2, 3, 4, 5, 6, 7, 8, 9
2003 – 2004:	10 & 11	K, 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11
2004 – 2005:	12	K, 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12

3. Parental and Local Control

An important purpose of Child-Centered Education is preserving and enhancing local control. This is particularly important given recent research showing that school districts with more local funding are more effective than districts with control centralized at the state level.[13]

Local control comprises two elements. The first consists of parents and students who, as consumers, provide accountability through their decisions about which schools will be attended and thus funded. The second element consists of school administrators and teachers who provide the product. Thus, Child-Centered Education would empower the consumers (parents and students) *and* producers (school administrators and teachers). [14]

Parental control is central to the success of Child-Centered Education.

Arizona provides an example of these incentives in action. Arizona's charter schools enroll almost 30,000 students and compete directly with traditional public schools. Charter schools – much like Ohio's community schools – are independent public schools freed from many of the regulations that bind conventional public schools. Some traditional public schools now advertise to attract students based on curriculum and academic excellence, a phenomenon directly tied to the popularity of independent charter schools.[15] Child-Centered Education in Ohio would give schools similar incentives to innovate and target resources to the places that mean the most to parents and students.

In a child-centered education framework, local control becomes school control, not centralized district control. While school districts are clearly better than counties or the state at determining what works best, moving control to the school level will be even more effective. This is the premise underlying charter (community) schools, the fastest growing school reform movement in the country.

Parental control

Child-Centered Education would enhance parental control in at least two ways:

- Parents would be directly involved in the choice of schools for their child.
- Education Opportunity Grants would provide incentives for schools to serve the education needs of individual students.

Thus, the *funding system* would put parental accountability at the center of all education decisions.

School-based education decisions

Another salient feature of Child-Centered Education is its focus on individual schools.

This reflects a desire to decentralize decisionmaking, particularly those decisions that effect individual classrooms. Child-Centered Education reinforces the principle that principals and teachers are most often in the best position to determine the curricular and staffing needs of their schools. Local school empowerment would also be enhanced by collective bargaining reform (see Appendix C).

Nothing in Child-Centered Education, however, would preclude school districts from retaining their existing governance structure.

Voter-driven tax decisions

A third element of a child-centered education approach to school reform is the retention of local control over funding levels. Local school districts could continue to raise money locally, independent of the state grant money they receive. In this way, decisions about appropriate taxing levels would remain local.

Child-Centered Education encourages local school districts to view their district as "a system of schools" rather than a school system.

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4. Program Funding

In principle, any public school district could adopt Child-Centered Education now by simply earmarking dollars for schools within their district on a per-pupil basis and allowing new schools to be created by teachers and administrators. Given the constraints of *DeRolph v. State*, however, state and local policymakers cannot rely on local dollars as much as they could before.

A grant of $4,000 per child could be provided now at funding levels about 25% lower than current spending.

The following alternatives outline possible ways state and local policymakers could re-configure existing funding streams to support a child-centered education program.

Types of grants

Child-Centered Education would provide grants earmarked for four basic purposes:

- ✓ **regular instruction grants** representing an average cost of an education, adjusted for inefficiency in the current public school system.[16] A preliminary assessment suggests that a basic instructional grant should be at least $3,500 per student.[17]
- ✓ **special education grants** determined by individual education programs based on the severity of the handicap.[18]
- ✓ **adult education grants** determined by an average cost for adult and continuing education.
- ✓ **transportation vouchers** determined by the average transportation cost reimbursement for local school districts according to current policy.

The total cost of this program should be revenue-neutral within current spending on primary and secondary education.[19] Changes in funding should be considered only after Child-Centered Education has been fully implemented. The state could add $500 to each child's grant if a family qualifies for the free lunch program, but this

A grant could be provided at funding levels about 25% lower than current spending.

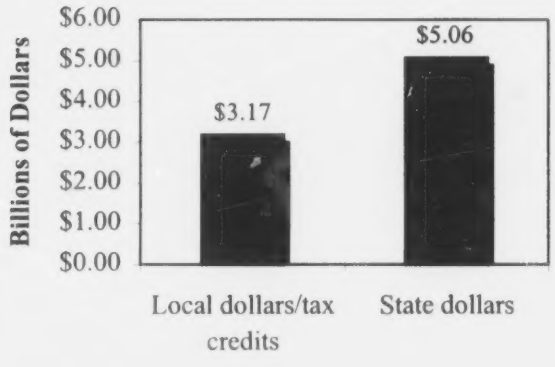
would add to the program's cost and may require funding from other sources.

General framework

Several approaches to funding Education Opportunity Grants are possible. An adequate, efficient, and accountable funding system should consider issues such as maintaining local control, accountability, and revenue stability. A school finance reform plan should also be easily understood and tracked by parents, teachers, and policymakers. Child-Centered Education fulfills these requirements.

Currently, 2,058,949 students are enrolled in public and private schools in Ohio. Of these, 1,812,497 students attend regular public schools, 238,000 attend private schools, and 8,452 attend state or county special education facilities.

Figure 2
Sources of funds for Education Opportunity Fund
(from all sources)



The State of Ohio collects $5.87 billion in property taxes for education each year,[20] while the Ohio Department of Education appropriates about $6.3 billion.[21]

Education Opportunity Grants would be set at a level that adequately covers the cost of providing a basic education, including transportation costs, as estimated by the Ohio Department of Education (Appendix A). This suggests a grant worth at least $3,500 but possibly as high as $4,000 per student once transportation costs are included (see Appendix B).

Thus, an Education Opportunity Fund of about $8.2 billion would be required to fund grants worth $4,000 each. This is about 25% less than the current amount spent on elementary and secondary education in Ohio's public schools.

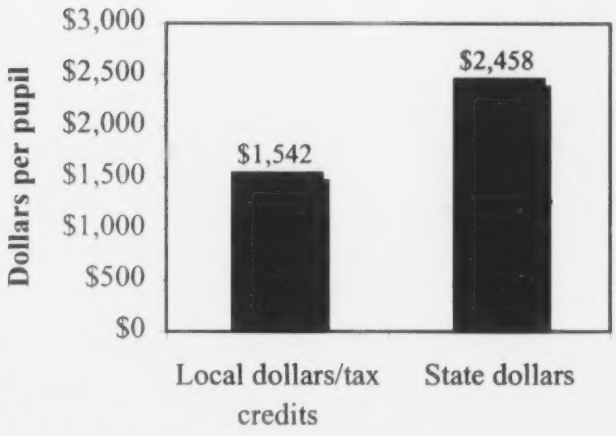
About $5 billion can be raised by consolidating and reallocating current state-funded programs, including basic aid, equity aid, and Disadvantaged Pupil Impact Aid (DPIA) funds (see figure 2 and Appendix D). The remaining $3.2 billion would have to come from other sources.[22]

In addition, the state could provide a supplemental grant of $3,404 for special education students, bringing the total special education voucher for them up to an average $7,404.

Local revenue option I: Education tax credits

Supplementing the state contribution through local dollars could be accomplished a number of different ways. One of the more promising approaches may be

Figure 3
Source of funds for $4,000 Education Opportunity Grant



education tax credits. This approach is already in place in Minnesota and Arizona.

The Ohio Department of Education would provide a state-funded grant of $2,500 and tax credits worth $1,500 for education expenses like tuition, transportation, textbooks, fees, extracurricular activities, or other direct costs. The tax credit would then be deducted directly from a family's state income tax bill at the end of the year.

In Minnesota, tax credits are capped and means-tested. A family may claim $1,000 per child up to a maximum of $2,000 per household. The tax credit is not available for families with taxable incomes over $33,500 per year.[23]

Ohio policymakers could also convert the tax credit into a grant for low income households. If the tax credit were greater than the actual tax bill for the family, the state could also provide a grant to cover the difference.

Summary of funding sources and grant size for $4,000 Education Opportunity Grant

	Total funds	*Per pupil (average)*
Local dollars & tax credits	$3.17 billion	$1,542
Consolidation of state programs (see Appendix D)	$5.06 billion	$2,458
Total revenues & grant size for regular instruction	**$8.23 billion**	$4,000

Tax credits in action

Mr. and Mrs. Smith decide to send Mary, their only child, to a local public elementary school. The school reports its cost per pupil (tuition) as $4,500 which covers fees, books and transportation costs.

The Education Opportunity Grant would provide $2,458 dollars toward the cost of educating Mary at the local school. The Smiths would still have to spend an additional $2,042 to send Mary to school. These expenses would be taken as a tax credit at the end of the year.

The Smith's end-of-the-year taxes are just $1,500, even though they could claim up to $2,000 through the tax credit. The family could eliminate their tax liability ($1,500), and the State would provide a supplemental grant of $500.

Local revenue option II: Earmarking

Another approach would be to pool local dollars by earmarking local property tax revenues for the Education Opportunity Fund.

Historically, the property tax has been a stable source of revenues.[24] Sales and income tax revenues tend to increase during periods of economic growth and decrease during periods of decline. Property taxes, in contrast, are more stable because property assessments do not change over short periods of time.

The most direct way to earmark these funds would be to:

- Repeal **all** local education-related property and income taxes.[25]
- Institute a statewide property tax of 19.2 effective mills that would be earmarked for the Education Opportunity Fund to be distributed **only** as regular instruction grants, special education grants, adult education grants, or transportation vouchers.
- Direct funding for current state programs – including basic aid, equity aid, and disadvantaged pupil impact aid – into an Education Opportunity Fund.
- Allow local school districts to augment basic instruction and education by approving local property and income taxes.

Earmarking the first 19.2 mills of local property taxes would raise about $1,542 per student, or $3.17 billion, without increasing taxes for any school district.

Combining these revenues with state funding would generate a pool sufficient to provide a grant worth $4,000 per student in Ohio.[26] (Of course, supplemental funding could also be provided through tax credits.)

This school finance reform package

should be passed as a one-time, complete proposal. *Future increases in statewide property taxes should require a ballot initiative and a supermajority of two-thirds of each house of the General Assembly.*

Local district supplemental funding

The state-funded grant would not prevent local communities from augmenting these revenues with local dollars. In fact, without a tax increase, most communities could still fund their students at levels higher than the state grant if they maintained their current tax levels.

The average *effective*[27] operating millage in Ohio, for example, is 28.6 mills. If state policymakers earmarked the first 19.2 mills of local property taxes for the Education Opportunity Fund, the "average" school district in Ohio could still add another $757 per student locally without raising taxes beyond current levels.

In fact, school districts spent an average of $5,465 per student during the 1995-96 school year.[28] A $4,000 grant would fully cover the tuition in the majority of private schools and is almost double the average tuition for inner-city Catholic elementary schools.[29]

- Columbus, for instance, could generate an additional $1,586 per student without a tax increase, boosting its total grant to $5,586 per student.[30]
- Cincinnati public schools could provide a grant worth about $5,482.[31]
- Cleveland, which has the lowest level of local property taxation among the big city school districts, could offer a grant worth $5,271 without raising taxes.[32]

This process would ensure that each student receives an adequate level of funding. Local control would also be maintained over future tax increases and funding for local public schools.

Pooling local revenues into an Education Opportunity Fund through a statewide property tax makes sense ***only*** *within a child-centered education framework. Only Child-Centered Education preserves local control and provides the accountability necessary to ensure that education dollars will be spent in the most productive and efficient way possible.*

5. Conclusion

Currently, Ohio's public school system does not focus exclusively on the needs of students. School districts receive state funding and local tax revenues regardless of their performance. A system of state-funded grants would change this focus while retaining local control *and* strengthening parental control over their child's education.

The adoption of Child-Centered Education using statewide grants would provide powerful incentives to improve public education by *attracting* students into schools through

- **empowering parents and students.**
- reinforcing **local control** by creating direct parent-school accountability.
- incorporating a **customer focus** through parent-driven school funding decisions.
- **linking funding to education opportunity.**
- **empowering administrators and teachers** by creating incentives to innovate.

This approach would also conform to the broad guidelines established by the Ohio Supreme Court in *DeRolph vs. State*. **Child-Centered Education satisfies five of the six requirements** under *DeRolph* as the following comparison from the criteria outlined in Chapter One and the next page shows:

- Education Opportunity Grants are pegged to an efficiency-adjusted cost per pupil (requirement #1 from page 1).
- The grants replace the School Foundation Formula (requirement #2).
- Revenue pooling from state and local sources
    a) reduces the local property tax as the primary source of funding (requirements #3 and #4),
    b) ties education opportunity to funding,
    c) provides equitable school funding while not leveling down.
- A minimum per-pupil revenue guarantee reduces the need for school districts to borrow (requirement #5).
- The grant program has the potential to increase resources in public schools (requirement #5). The Indianapolis-based Tax Research and Analysis Center estimates that a $1,000 grant could increase effective public school spending per pupil by 31%.[33]

The only point Child-Centered Education does not address is the one dealing with facilities and other capital expenditures (requirement #6). Given the recent establishment of the Ohio School Facilities Commission and appropriations for building renovation and repair, current remedies address these concerns.[34] In the long run, however, capital outlays need to be

integrated into operating revenues in a unitary budgetary framework based on Generally Accepted Accounting Principles.

More importantly, a state-funded grant system would explicitly link funding to education achievement and strengthen public education in the process.

Summary of *DeRolph* requirements and child-centered education proposal

Requirement	*Child-Centered Education*
1. Funding tied to education opportunity	√ **(YES)**
2. Elimination of School Foundation Formula	√ **(YES)**
3. State responsible for funding	√ **(YES)**
4. Eliminate reliance on local property tax	√ **(YES)**
5. Eliminate need to borrow for budget shortfalls	√ **(YES)**
6. Ensure funding for building and facilities	X **(N/A)***

*Building needs have already been addressed adequately through funding and appropriations for the Ohio School Facilities Commission.

Appendix A:
Role of the Ohio Department of Education

The Ohio Department of Education would still have an important role to play in administering Child-Centered Education, although its functions would change significantly.

The department's principal functions would be to:

1) Determine the size of the Education Opportunity Grants
2) Ensure adequate funding from the Education Opportunity Fund.
3) Administer Ohio Education Savings Accounts through the Education Trust
4) Continue to administer and fund more than 30 programs generating about $540 million (see Appendix D), including
   a) Teacher certification and licensure
   b) Student testing and administration
   c) Chartering nonpublic and community schools
   d) Other grant programs not in the statewide grant fund

The department would also be responsible for general oversight of the child-centered education program and Education Service Centers and would advise Education Service Centers, local school districts, and schools on education issues and programs. Most mandates concerning schools and their curricula would be rolled back.

Appendix B: Transportation

Student transportation would be privatized, giving local parents choice and control over how their children get to school. Every student living more than one mile[35] from school would qualify for an annual transportation voucher that could be used for public or private transportation, including buses, personal transportation, or other forms of safe, reliable transportation (e.g., van pools). This feature would not preclude voluntary carpools. Parents with children in private schools already receive transportation vouchers. Child-Centered Education would extend the same privilege to all families, regardless of what school they chose.

Education Service Centers could contract with private providers for student transportation, but parents would be free to choose the type of transportation that best suits their needs. District owned and operated bus services, if provided, would be financed by transportation vouchers or local subsidies determined by the local district school board.

Local districts, however, could still provide yellow bus service to students in their boundaries. They could also contract-out their service to other districts, to parents, or to individual schools. If school districts opt to provide yellow bus service, local school districts would be responsible for bus transportation only within their own boundaries.[36]

The state-funded transportation voucher would be a flat grant to qualified parents with a maximum value of $400 annually per student credited against their Education Opportunity Grant amount.

Appendix C:
Collective Bargaining Reform

Identifying the school as the collective bargaining unit would encourage innovation by giving individual schools, principals, and teachers the ability to develop unique programs through agreements with the local school district.

Localizing collective bargaining has several advantages. Teachers and administrators would be allowed to tailor agreements to the specific needs of individual schools and groups of students. School boards would have new flexibility to stagger agreements to meet specific needs. Some schools could even have combinations of three year, five year, temporary, or annual agreements.

The definition of public "schools" would be determined by local school boards, but the definition should allow for a wide range of sizes, options, and types. Following the community school legislation for Lucas County and other large urban districts, public schools would have a minimum of 25 students.[37] Local schools could form consortiums for collective bargaining purposes, although no schools would be required to adopt collective bargaining.

Existing collective bargaining agreements would not automatically extend to new schools unless teachers and other personnel elect to extend them. This practice would be similar to that under community school legislation.[38]

Benefits of localized collective bargaining

Designating the school rather than the district as the collective bargaining unit would give teachers, school administrators, and school board members unprecedented flexibility.

Currently, collective bargaining agreements are implemented district-wide, applying a one-size-fits-all approach to teacher contracts. This means that innovation in a school that deviates from the existing agreement requires district-wide consent, stacking the deck against innovation.

Suppose, for example, a district would want to establish a technology-based school and curriculum. The teachers and principal might want to bring a nationally recognized expert on integrating technology into the classroom to their school for an in-service seminar. They plan to finance this year-long program through voluntary contributions from their annual salaries. This arrangement would be prohibited by most collective bargaining agreements and would probably garner little support from other teachers. The objections to this program from other schools could be numerous: Teachers in other schools might fear that this program would set a precedent, confer specialized benefits on a particular school, or be implemented district-wide.

But if the school rather than the district were the bargaining unit, the program could be implemented.

Appendix D: Proposed Consolidation of State Programs

(A) *Programs Remaining with State* ($541.6 million)	(B) *Regular Education Fund* ($5.02 billion)	(C) *Special Education Fund* ($769.3 million)	(D) *Adult Education Fund* ($37.5 million)
Personal services	Public Preschool	Special education	GED Test
Maintenance	Vocational ed. Match	Spec. ed. aides	Adult literacy
Equipment	Professional dev.	Educ. Disadvantaged	Post-secondary
Head Start	School mgt. asst.	ED. Of All Hand. child	Adult literacy ed.
Family/Children First	Teacher recruitm't	Special ed.	Adult basic ed.
Consumer education	OH ed. Comp. Net.	County MRDD transp.	
Simulation system	Community schools	Indiv. W/disabil. IDEA	
Local Prof. Dev.	School finance equity		
School Improv. Mod.	School fdn.-Basic		
School conflict mgt.	Pupil transp.		
Stud. Profiency	Bus purchase		
Am. Sign language	Vocational ed.		
Child care licensing	Auxilliary services		
EMIS	Driver educ.		
School lunch match	DPIA		
Ed. Excellence/comp.	Gifted pupil		
Peer review	Voc. Ed. Replacement		
Natonal Bd. Cert.	Nonpub. Admin. Cost		
Entry yr. programs	School age child care		
Indiv. Career plan	Desegregation costs		
Indiv. W/disab. SERRC	Reading improvement		
Guidance and testing	Preschool spec. educ.		
OH Prev./ed resource	Prop. Tax allocation		
OH career info system	Tang. Tax exemption		
Teacher certification	Computer services		
Head Start collaboration	Fees & gifts		
Vet. training	School food services		
Fed. School lunch	Vocational Education		
Fed. School breakfast	Voc. Ed. Basic grant		
Child/Adult care	Commodity Foods		
ESEA Chapter One	Aux. Service mobility uit		
School to work	Indirect cost recovery		
Fed. Driver Ed. Proj.	Textbooks/instructional mat.		
Pupil Transp. Safety	School fdn. - basic allowance		
ESEA consolidated grants	Vocational education		
Tech. Assist. For Ed. Mob.	Lease rental payments reimb.		
JTPA	Bus purchase - one time		
Goals 2000			
Sex Equity			
Math/Scient Tech. Inven			
Drug Free Schools			
Honors Scholarship Program			
AIDS Ed. Project			
ESEA Chapt. Two			
Interagency voc. Support			
Disability Access Project			
Judgement Loans			

Legend

This table lists programs in the current budget for the Ohio Department of Education and how its funds could be redistributed to fund Education Opportunity Grants.

(A) Programs funded in the current budget that could continue to be administered and funded through the state.

(B) Programs in the current budget that could be consolidated into the Education Opportunity Fund for basic instructional grants.

(C) Programs in the current budget that could be consolidated into a separate special education fund.

(D) Programs pertaining to adult education that could be folded into the Education Opportunity Fund.

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End Notes

[1] For reviews of this research, see Eric A. Hanushek et al., *Making Schools Work: Improving Performance and Controlling Costs* (Washington, D.C.: Brookings Institution, 1994) chapter 3; "The Economics of Schooling: Production and Efficiency in Public Schools," *Journal of Economic Literature* 24, no. 2 (1986): 1141-77.

[2] Samuel R. Staley, "700 Million Dollar Plus School Funding Increase is Not the Answer," *Perspective on Current Issues* (Dayton, Ohio: The Buckeye Institute for Public Policy Solutions, November), 1996; Richard Vedder, Alfred Eckes, Luther Boggs, *Testing and Education Achievement: Ohio and the Nation* (Athens, Ohio: Contemporary History Institute, Ohio University, September) 1994; Marjorie Davies, "Spending and Student Achievement in Ohio Public Schools: Providing Incentives for Efficiency," *Regional Policy Report No. 2* (Dayton, Ohio: Urban Policy Research Institute/The Buckeye Institute for Public Policy Solutions) 1991; J. Treacy, R. Harris and N. McKinney, *Measuring Ohio's Public Education Output* (Dayton, Ohio: College of Business Administration, Wright State University) 1991.

[3] Caroline Hoxby, "Are Efficiency and Equity in School Finance Substitutes or Complements?" *Journal of Economic Perspectives* 10, no. 4 (Fall 1996), p. 53.

[4] The majority opinion does not cite education spending and productivity research in its decision. It relies almost exclusively on the specific cases of the school districts that brought the law suit. The dissenting opinion, on the other hand, notes that a positive relationship between spending and student achievement does not exist even in the school districts that brought the lawsuit, although it does not cite academic research either.

[5] "Nobody's success depends on whether students learn," statement prepared by David Nordyke, July 21, 1997.

[6] Hoxby, "Are Efficiency and Equity in School Finance Substitutes or Complements?" p. 70.

[7] Ibid.

[8] Currently, about 238,000 students attend private schools, representing about 13% of the total student population in Ohio. Some people might be concerned that grants would result in a mass exodus of students from public schools. Note, however, that even if private schools doubled their current capacity, almost three-quarters of all Ohio students would still be educated in public schools.

[9] See Ohio Revised Code, Section 3314. Community schools are public schools independent of any public school district.

[10] If the responsibility for school management were truly devolved to the school level (a characteristic of private school management), school personnel such as the principal would be free to contract with the highest quality, lowest cost provider. In this case, schools within districts would be able to contract with private vendors for some services (e.g., bus transportation), the central office for other services (e.g., administrative support, inspections, testing), or even other schools for other services (e.g., counseling services).

[11] Opting out would forfeit the districts' (and schools') right to state aid through the Education Opportunity Grant program. Districts, then, would have to fund their schools solely from local revenues.

[12] The Ohio Department of Education would be responsible for determining what the "cost" of an education will be. Cost should be defined as the average per pupil expenditure in a public school. For private schools, cost should be defined as tuition.

[13] Caroline M. Hoxby, "Local Property Tax-Based Funding of Public Schools," *Policy Study No 82* (Palatine, IL: The Heartland Institute, May, 1997).

[14] Market accountability would be meaningless, however, if schools were not allowed the flexibility to adapt to parent and student preferences. Schools must be able to allocate their grant dollars in the ways that best meet the needs of their students. This means public schools must be deregulated.

[15] Kelly Pearce, "Mesa District's Ads Answer Challenge of Charter Schools," *Arizona Republic*, September 3, 1997.

[16] See John Ruggiero, "On the Measurement of Technical Efficiency in the Public Sector," *European Journal of Operational Research* (1996): 553-65; J. Ruggiero, W. Duncombe and J. Miner, "Measuring and Explaining Technical Inefficiency in the Public Sector," *Journal of Public Administration and Research* 5 (1995): 403-28. For an application to education, see J. Ruggiero, "Efficiency and Educational Production: An Analysis of New York School Districts," *Review of Economics and Statistics* 78, no.3 (1996): 499-509.

[17] A preliminary analysis of the base cost of educating children in Ohio public schools suggests that an *efficiency-adjusted* base cost of educating children would be $3,055. Methodological problems prevent an accurate assessment of these costs, so more sophisticated work is necessary. See John Ruggiero, "An Analysis of the Cost of Education in Ohio School Districts and the Implications for State Policy," *Policy Report* (Dayton, Ohio: The Buckeye Institute for Public Policy Solutions), forthcoming.

[18] According to the Ohio Department of Education, Ohio enrolls about 217,000 handicapped students in regular schools, 63% of whom are in lower-cost special education programs. Another 8,452 students attend schools that target special education needs.

[19] Raising taxes risks putting Ohio at a competitive disadvantage compared to neighboring states. See Sam Staley and Robert Lawson, "Paying the Piper: School Funding Solution Should Not Include Higher Taxes," *Perspective on Current Issues* (Dayton, Ohio: The Buckeye Institute for Public Policy Solutions, August, 1997); See also the Ohio Public Expenditure Council's *Special Report* 97-9, June, 1997.

[20] Ohio Legislative Budget Office, September, 1997. On average, districts levy 28.7 effective mills to generate these dollars. This excludes about $100 million in income taxes raised by local districts each year.

[21] Ohio Legislative Budget Office, Summary of Budget Appropriations, June, 1997.

[22] This is equivalent to a 19.3 mill (effective) local tax levy. The minimum number of effective mills levied by any school district in Ohio is 20. Each mill, on average, can generate $165.5 million statewide.

[23] "Governor Carlson Signs K-12 Education Bill," Office of the Governor, State of Minnesota, St. Paul, Minnesota, June 30, 1997.

[24] See Henry J. Raimondo, *Economics of State and Local Government* (New York: Praeger, 1992), p. 159.

[25] One hundred and twenty public school districts levied an income tax, generating $99.3 milion in Fiscal Year 1997. See "School District Income Tax Distribution: Quarterly Report Fiscal Year 1997," *Tax Date Series*, No. 36 (Columbus, Ohio: Ohio Department of Taxation, 1997), table SD-204.

[26] Transportation costs vary by district. Transportation vouchers will be funded out of the regular per pupil voucher cost.

[27] Effective mills differ from *voted* mills. Ohio state law allows numerous exemptions and rollbacks that reduce the amount of revenue each mill (1/1000 of a dollar) can raise. Thus, each voted mill only raises a fraction of a mill. The amount actually raised – or effective millage – will vary from district to district. For analytical purposes, effective millage is used. Effective millage provides a more accurate measure of what local districts can actually raise from their local property tax base.

[28] Importantly, actual spending was also 30% higher than the recommended basic instruction

per pupil level recommended by Dr. John Augenblick in his report to the Ohio Department of Education.

[29] The average tuition for private schools participating in the Cleveland Scholarship and Tutoring Program, a program serving kindergarten and elementary school age children, is $2,200. Catholic schools in the program average tuition levels lower than $2,000.

[30] Estimates based on effective mills for Class 1 and Class 2 property only. Data provided by the Ohio Legislative Budget Office for Fiscal Year 1998, September, 1997. Per student estimates based on Fall 1996 ADM (average daily membership).

[31] Ibid.

[32] Ibid.

[33] Peter Rangazas, *Redistributive Education Policy: School Vouchers* (Indianapolis, Ind.: Tax Research Analysis Center, April, 1997).

[34] The General Assembly appropriated almost $400 million for school building renovation and repair for 1997-98. Given that school districts which qualify for the current program have not tapped into the full amount allocated in previous years, Ohio school districts are likely *institutionally* incapable of tapping into and efficiently spending significantly larger amounts of money for this purpose.

[35] This provision helps ensure the program is consistent with Ohio Revised Code concerning student transportation. See Ohio Revised Code, Section 3314.

[36] Currently, school districts are also responsible for transporting children to private schools within 30 minutes of the school district. This plan would eliminate this mandate.

[37] Ohio Revised Code, Section 3314.03 (11)a.

[38] Ohio Revised Code, Section 3314.10.

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